

Message Text

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11

ACTION TRSE-00

INFO OCT-01 EA-11 ADP-00 NEA-10 IO-12 H-02 L-03 PRS-01

PA-03 USIA-12 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 RSR-01

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P R 130403 Z APR 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 4428

INFO AMEMBASSY BANGKOK

AMEMBASSY VIENTIANE PRIORITY

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USADB

FOR NAC AGENCIES

BANGKOK FOR RED

E. O. 11652: ADS, DECLAS 5-31-73

TAGS: EAID, EFIN, LA, TH

SUBJECT: PROPOSED SUPPLEMENTARY ADB LOAN FOR VIENTIANE
POWER DISTRIBUTION PROJECT IN LAOS

SUMMARY: ADB MANAGEMENT PROPOSES US \$1.35 MILLION
EQUIVALENT SUPPLEMENTARY LOAN FROM SPECIAL FUNDS TO GOVT
OF LAOS TO FINANCE FOREX COSTS OF COST OVERRUN FOR
VIENTIANE POWER DISTRIBUTION PROJECT (FOR WHICH \$3.37
MILLION EQUIVALENT LOAN WAS APPROVED BY BANK IN 1971)
LARGELY RESULTING FROM REALIGNMENTS OF MAJOR CURRENCIES
AND PRICE INCREASES FOR MATERIAL REQUIRED. USADB RE-
COMMENDS FAVORABLE NAC ACTION.

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1. ADB DOC R36-73 WITH ATTACHMENTS DESCRIBING PROPOSED LOAN POUCHED ADDRESSEES 12 APRIL. BOARD CONSIDERATION LIKELY 3 MAY.

2. ADB MANAGEMENT PROPOSING US \$1.35 MILLION EQUIVALENT SUPPLEMENTARY LOAN FROM SPECIAL FUNDS RESOURCES TO GOVT OF KINGDOM OF LAOS. PROCEEDS WILL PROVIDE ADDITIONAL FINANCING TO COVER FOREX COST OVERRUN FOR VIENTIANE POWER PROJECT. PROPOSED TERMS ARE 23- YEAR AMORTIZATION INCLUDING 3- YEAR GRACE PERIOD, 1 1/2 PERCENT INTEREST. KINGDOM OF LAOS TO BE BORROWER AND ELECTRICITE DU LAOS (EDL) THE EXECUTING AGENCY.

3. ON 6 MAY 1971, ADB APPROVED US \$3.37 MILLION LOAN FROM SPECIAL FUNDS FOR VIENTIANE POWER DISTRIBUTION PROJECT, REPRESENTING ABOUT HALF COST OF OVERALL SCHEME FOR RENEWAL AND EXTENSION OF POWER DISTRIBUTION FOR CITY DW VIENTIANE, WITH GOVT OF LAOS TO PROVIDE LOCAL CURRENCY EXPENDITURE. GOVT OBTAINED FINANCING FOR OTHER PART OF SCHEME FROM FEDERAL REPUBLIC OF GERMANY THROUGH KREDITANSTALT FUR WIEDERAUFBAU (KFW) FOR DM 12.6 MILLION. ADB PROJECT INVOLVES CONSTRUCTION OF ONE SUBSTATION AND EXTENSIONS TO TWO MAJOR SUBSTATION WITHIN CITY; INTERCONNECTION OF FIVE MAJOR SUBSTATIONS OF SCHEME BY 22 KV TRANSMISSION LINES AND 22 KV AND 400/200 V DISTRIBUTION SYSTEM INCLUDING POLE- MOUNTED DISTRIBUTION TRANSFORMERS; STREET LIGHTING AND HOUSE CONNECTIONS. ALSO INCLUDED WERE ADVISORY SERVICES NEEDED FOR IMPROVEMENT OF MANAGEMENT AND ACCOUNTING PRACTICES OF EDL, WHICH IS SOLE AGENT FOR GENERATION, TRANSMISSION AND DISTRIBUTION AND SALE OF ENERGY IN LAOS. (CONSULTANTS FINANCED UNDER KFW LOAN ALSO TO PROVIDE SERVICES FOR BANK-FINANCED PART OF SCHEME.)

4. INTERNATIONAL COMPETITIVE BIDDING UNDER BOTH BANK AND KFW LOANS TOOK PLACE DURING 1972. BID PRICES WERE IN EXCESS OF FUNDS AVAILABLE UNDER RESPECTIVE LOANS. DISCUSSIONS WERE HELD BETWEEN EDL, CONSULTANTS AND BANK STAFF, AND, AFTER ALLOWANCE FOR COST- SAVING MEASURES COST OVERRUN UNDER BANK-FINANCED PORTION OF SCHEME NOW AMOUNTS TO US \$1.35 MILLION EQUIVALENT, WHILE COST OVERRUN UNDER KFW- FINANCED PORTION WAS ELIMINATED PARTLY BY ASSIGNING ERECTION OF LOW-VOLTAGE LINES TO EDL. OVERALL SCOPE OF SCHEME REMAINS LIMITED OFFICIAL USE

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SAME WITH EXCEPTION OF DEFERRING ONE MAIN- VOLTAGE LINE

WHICH DOES NOT IMPAIR TECHNICAL EFFICENCY OF SCHEME.
FINANCIAL INTERNAL RATE OF RETURN ON PROJECT, INCLUDING
COST OVERRUN, NOW CALCULATED AT 16.2 PERCENT, VERSUS 18.0
PERCENT ON BASIS OF ORIGINAL COST ESTIMATES.

5. BANK DOCUMENTS EXPLAINS (PARA 11) THAT ACTUAL COST
OVERRUNIS PRIMARILY DUE TO CURRENCY REALIGNMENTS SINCE LOAN
WAS MADE -- MOST NEGOTIATED CONTRACTS ARE WITH GERMAN OR
JAPANESE MANUFACTURERS -- AND TO SMALLER DEGREE TO PRICE
ESCALATION OF 3 TO 4 PERCENT PER ANNUM. ON WHOLE, CON-
SULTANT FOUND TENDER PRICES SUBMITTED TO EDL WERE AT
INTERNATIONALLY ACCEPTABLE LEVELS. BANK LEGAL COUNSEL
TOLD USADB THERE IS NO INDICATION OF ANYTHING INHERENTLY
DEFECTIVE IN EVALUATED BIDS.

6. TOTAL COST OF OVERALL SCHEME NOW ESTIMATED AT US \$9.2
MILLION. BANK- FINANCED PORTION, INCLUDING PROPOSED SUPPLE-
MENTARY LOAN, IS ESTIMATED AT US \$5.05 MILLION, OF WHICH
FOREIGN EXCHANGE REQUIRMENT IS US \$4.72 MILLION. LOCAL
CURRENCY COST OF \$0.33 MILLION TO BE PROVIDED BY EDL REMAINS
SAME AS BEFORE.

7. PROPOSED BANK- FINANCED PART OF SCHEME WILL UTILIZE
AVAILABLE POWER FROM NAM NGUM HYDRO- POWER PLANT PHASE I,
WHICH HAS BEEN IN OPERATION SINCE DEC 1971; WILL BENEFIT
LARGE NUMBER OF CONSUMERS IN VIENTIANE; AND WILL IMPROVE
POWER SUPPLY TO SMALL INDUSTRIES BEING ESTABLISHED IN CITY'S
VICINITY. CONSTRUCTION OF OVERALL SCHEME WILL SUFFICIENTLY
SERVE POWER DISTRIBUTION NEED OF CITY FOR NEXT TEN YEARS
WITHOUT MAJOR CHANGE. IN VIEW OF VERY WEAK FOREIGN EXCHANGE
EARNINGS OF COUNTRY, USADB SUPPORTS PROPOSAL AND RECOMMENDS
FAVORABLE NAC ACTION.

8. REQUEST VIENTIANE COMMENTS FOR NAC AGENCIES, INFO
USADB MANILA, PURSUANT TO STATE 119795 DTD 3 JULHG1972.
BYROADE

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*** Current Handling Restrictions *** n/a

*** Current Classification *** LIMITED OFFICIAL USE

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MANILA
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VIENTIANE
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